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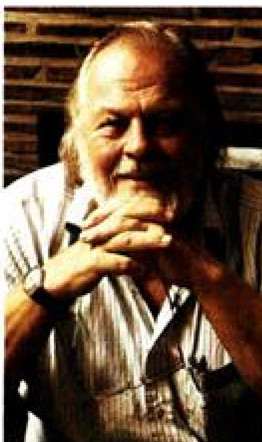
More billions tossed away



BROAD STROKES
Michael Coulson

coulsonmh@gmail.com

Yet another company has admitted that it, in effect, threw billions of dollars away through an ill-judged share repurchase scheme. Earlier this month **ArcelorMittal**'s impressive CEO, Nku Nyembezi-Heita (whose ability to answer penetrating questions off the cuff at corporate briefings is remarkable),

conceded that the company's cash position was one reason (in fairness, there are others) for its deferment of some capital projects. She mentioned, in passing, the R3,9bn share buyback in 2009. Now, by unhappy coincidence, R3,9bn is almost exactly the decline in cash holdings in the succeeding two years, from R4,3bn at the beginning of 2010 to R439m at December 31. How the company must wish it had at least a large chunk of that R3,9m still in the bank.

Last year management consultancy McKinsey published a study of share buybacks. The full report is disappointingly bland, perhaps for fear of alienating actual or potential customers. But the underlying sentiment is clear.

Specifically, the argument that share purchases increase value because they increase earnings per share is fallacious: while this may be the mathematical effect, it ignores the outflow of cash that makes a company more risky by increasing its leverage (gearing).

McKinsey is also sceptical of the argument that companies can repurchase undervalued shares for the benefit of those shareholders who don't sell. It says it's much more common for companies to repurchase shares when prices are high than when they're undervalued.

I wrote last year that this was certainly true for **Anglo American**, and it is for ArcelorMittal, too. It bought back about 445-million shares at 8 764c each. The current price is 6 700c. By my arithmetic, that means it projected almost R1,2bn against the proverbial wall – an absolute loss to its shareholders.

Not only does this underline that companies in cyclical businesses should be most reluctant to thin down their cash balances, it also confirms that special dividends are both the most efficient and fairest way of returning what surplus cash there may be, to shareholders.

CAUTIONARY LIMBO

Rome may not have been built in a day, but it would never have been built at all if Roman artisans worked at the same pace as some South African dealmakers. I've noticed a regular repetition of cautionary announcements in recent months, so I thought I'd look at some cautionaries in force six months ago and subsequent progress.

I suspected that one of the worst offenders (if that's the right word) would be property company **Bonatla**, but even I wouldn't have guessed that it's been trading under cautionary since October 16 2002, as far as I can tell without a break, through a succession of abortive deals and the occasional suspension of the listing by the JSE. The latest cautionary was dated January 27.

The second-longest standing cautionary in August was **Trust Holdings**, from February 2 last year, but it announced details of a complex share repurchase in December. And **Capricorn**, under cautionary since June 22, released details of its Watermark acquisition earlier this month. Similarly **AECI**, under cautionary since July 26, published changes to its BEE scheme on December 19, though **Anooraq**, involved in a similar exercise and operational restructuring since May 13, has just renewed its status.

Intertrading was under cautionary regarding the acquisition of 60% of ConnectNet between March 4 and the termination of talks on December 6. **Colliers** took from August 25 to January 30 to finalise the sale of non-core subsidiaries to management, and **Masonite** from September 5 to February 7 to decide against proceeding with a mysterious "process". Financially strapped **Don Group** has been under cautionary since April 11; and **IFA**, facing difficulties over the sale of its stake in Boschendal wine estate, since May 23.

Let's hope they don't take as long as Bonatla to sort themselves out. IM